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# 1972 ANNUAL REPORT

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# ROYAL OAK DAIRY, LIMITED

## ANNUAL REPORT

### Financial Highlights

	1972	1971	1970	1969
Sales	\$10,401,596	\$9,439,000	\$8,334,000	\$7,441,000
Net Profit	190,255	173,000	79,000	38,000
Earnings per share Class A	5.07	4.62	2.11	1.01
Class B	3.36	3.01	1.13	0.30
Working Capital*	754,000	554,000	497,000	192,000

\*Securities taken at market value at December 31.

## DIRECTORS' REPORT

### TO THE SHAREHOLDERS:

The 1972 financial results of Royal Oak Dairy Limited including Bantam Stores are satisfactory. Income after taxes increased 10% to \$190,000 compared to \$173,000 in 1971 and \$79,000 in 1970. Earnings per share were \$5.07 and \$3.36 on Class A and Class B shares respectively, compared to \$4.62 and \$3.01 in 1971 and \$2.17 against \$1.98 on a fully diluted basis. Like our profits, sales were up 10%. Our financial position is improved. Both the working capital and our use of it have increased; the portfolio of marketable securities, has been upgraded. The cash position is good.

### Dairy Division

1972 Dairy Sales increased 4% over the preceding year to a record high due to additional wholesale accounts and higher milk prices. Expenses, especially for labour are higher and wholesale competition has lowered our margin. Thus dairy profits responded sluggishly to higher sales. The volume of milk delivered per route is at an all time high and we are proud of the flexibility and dedication of our salesmen which has made this possible. Some areas have been reduced to two or three day a week delivery schedules without loss of volume and in other areas retail deliveries have been consolidated, with a reduction of mileage and time. In the plant, almost all the product is now handled in stacks of five rather than case by case, reducing manpower and speeding truck loading. Cold storage has been increased ten percent, much of the floor has been re-surfaced and new in-floor conveyor installed.

Our success has been based on quality and in the summer we used intensive advertising both on radio and in the newspaper to re-inforce this image. We will repeat this program in 1973. However, it will be secondary to a new aggressive promotion campaign which should boost sales. New products are planned, especially in our very successful soft drink line new package designs will be ready for the summer season. Drinks, orange juice and margarine will be "specialled" repeatedly. The number of Royal Oak signs will be increased and many of the familiar red and white Royal Oak trucks will have a new, bolder look in 1973. We firmly believe that we can create a dynamic new personality and presence for Royal Oak Dairy in our market place.



## Bantam Stores Division

Profits again increased in 1972. Sales rose 16%, although the chain store discount war depressed the second quarter. Expenses also climbed, but your management improved the product mix sold which led to higher gross margins and excellent profitability while maintaining competitive prices. Bantam's marketing tools have certainly been very effective. Throughout the year, our independent store managers have supported us fully with loyalty and enthusiasm; at the year end, they were operating 42 stores. Two stores were opened in 1972 and one store was closed. We expect to open several new stores later in 1973.

We regret to note the death of Mr. Alex McKee who served for many years as an officer and director of the Company.

On behalf of the Board of Directors

March 9, 1973  
Hamilton, Ontario.

D. R. Hamilton,  
President.

# ROYAL OAK

(A Public Company Incorporated in Ontario)

## CONSOLIDATED

AS AT DECEMBER 31, 1972  
(with comparative figures for 1971)

ASSETS		1972	1971
<b>CURRENT</b>			
Cash .....	\$	201,607	\$ 121,051
Bank time deposits .....		100,000	100,000
Accounts receivable -			
Trade .....		277,983	251,177
Affiliated company .....		18,524	8,566
Marketable securities - at cost			
(market value - 1972 - \$ 515,014			
1971 - \$ 447,716) .....		283,733	299,185
Inventories - at the lower of			
cost and net realizable value -			
Products .....		454,209	469,117
Supplies .....		55,879	58,223
Prepaid expenses .....		42,268	49,343
Estimated overpayment of			
income taxes .....		5,920	
		<u>1,440,123</u>	<u>1,356,662</u>
<b>ADVANCE TO AFFILIATED COMPANY</b> .....		30,000	10,000
<b>FIXED</b> (Note 5)			
Land, buildings, plant and			
equipment .....		2,504,939	2,290,717
Accumulated depreciation .....		1,316,494	1,212,051
		<u>1,188,445</u>	<u>1,078,666</u>
<b>GOODWILL</b>		35,501	35,501
		<u>\$2,694,069</u>	<u>\$2,480,829</u>

Approved on behalf of the Board of Directors:

D. R. HAMILTON,  
Director

N. R. McLEOD,  
Director

**AUDITOR**

To the Shareholders of Royal Oak Dairy, Limited  
Hamilton, Ontario.

We have examined the consolidated balance sheet of Royal Oak Dairy, Limited, as at December 31, 1972, and the source and application of funds for the year then ended. Our examination was limited to the records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Royal Oak Dairy, Limited, as at December 31, 1972, and the source and application of their funds for the year then ended, in accordance with the requirements of the Companies Act, 1971.

HAMILTON, ONTARIO,  
February 15, 1973.

# AIRY, LIMITED

(Incorporated Under the Laws of Ontario)

## BALANCE SHEET

December 31, 1972

(Figures for 1971)

LIABILITIES		1972	1971
CURRENT			
Accounts payable and accrued liabilities .....	\$ 875,119	\$ 913,241	
Managers' deposits .....	42,033	36,050	
Estimated liability for taxes on income .....		1,563	
		<hr/>	<hr/>
	917,152	950,854	
DEFERRED TAX CREDIT .....	45,045	30,012	
	<hr/>	<hr/>	
LONG-TERM			
Bank loans (Note 3) .....	230,000	200,000	
Mortgages (Note 2) .....	150,751	91,281	
	<hr/>	<hr/>	
	380,751	291,281	

## SHAREHOLDERS' EQUITY

CAPITAL STOCK			
Authorized -			
37,500 class "A" preference shares of no par value, cumulative dividends of 60c per share per annum, convertible for class "B" common shares			
87,500 class "B" common shares of no par value, of which 37,500 unissued shares are reserved for conversion of class "A" shares			
Issued and fully paid -			
37,500 class "A" shares and			
50,000 class "B" shares .....		125,000	125,000
RETAINED EARNINGS .....	981,704	839,265	
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST .....	244,417	244,417	
	<hr/>	<hr/>	
	1,351,121	1,208,682	
	<hr/>	<hr/>	
	\$2,694,069	\$2,480,829	

The accompanying notes are an integral part of the financial statements.

## REPORT

and its subsidiaries as at December 31, 1972 and the consolidated statements of income and statement of retained earnings. The auditor's report included a general review of the accounting procedures and such tests of accounting re-

sults as to the financial position of the companies as at December 31, 1972 and the results of their operations. The auditor's report generally accepted accounting principles applied on a basis consistent with that of the pre-



ROYAL OAK DAIRY, LIMITED  
**CONSOLIDATED STATEMENT OF INCOME**  
 FOR THE YEAR ENDED DECEMBER 31, 1972  
 (with comparative figures for 1971)

	1972	1971
SALES .....	\$ 10,401,596	\$9,439,179
COST OF SALES, including selling general and administrative expenses.....	9,964,684	9,022,477
	436,912	416,702
PROVISION FOR DEPRECIATION .....	121,555	115,265
INTEREST ON LONG-TERM DEBT .....	13,795	9,117
	135,350	124,382
NET EARNINGS before income taxes .....	301,562	292,320
INCOME TAXES .....	128,700	135,900
NET EARNINGS FROM OPERATIONS .....	172,862	156,420
INCOME FROM MARKETABLE SECURITIES.....	17,393	16,708
NET EARNINGS FOR THE YEAR .....	\$ 190,255	\$ 173,128
NET EARNINGS PER COMMON SHARE (Note 1)		
Actual .....	\$ 3.36	\$ 3.01
Fully diluted .....	\$ 2.17	\$ 1.98

CONSOLIDATED STATEMENT OF RETAINED EARNINGS  
 FOR THE YEAR ENDED DECEMBER 31, 1972  
 (with comparative figures for 1971)

BALANCE - beginning of year .....	\$ 839,265	\$ 723,984
Net earnings for the year .....	190,255	173,128
	1,029,520	897,112
Dividends .....	47,500	47,500
Loss on sale of marketable securities .....	316	1,239
Loss on sale of fixed assets .....		9,108
	47,816	57,847
BALANCE - end of year .....	\$ 981,704	\$ 839,265



# ROYAL OAK DAIRY, LIMITED

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

THE YEAR ENDED DECEMBER 31, 1972

(with comparative figures for 1971)

	1972	1971
For the year .....	\$ 190,255	\$ 173,128
Deferred tax credit .....	121,555	115,265
	15,033	9,239
	326,843	297,632
	30,000	
and mortgages .....	67,406	9,746
fixed assets .....	1,798	7,782
	426,047	315,160
ed assets .....	233,133	220,773
ents .....	7,936	5,851
	47,500	47,500
marketable securities .....	315	1,239
liated company .....	20,000	10,000
	308,884	285,363
WORKING CAPITAL FOR THE YEAR	117,163	29,797
- beginning of year .....	405,808	376,011
- end of year .....	\$ 522,971	\$ 405,808

ROYAL OAK DAIRY - 1972 OPER NET \$172 862 OR  
 \$3.01 A SHR VS \$156 420 OR \$2.68. LATEST  
 PERIOD EXCLUDES A GAIN OF \$17 393 FROM MARKETABLE  
 SECURITIES WHICH MADE FINAL NET \$190 255 OR \$3.36  
 A SHR. YEAR AGO EXCLUDES A GAIN OF \$16 708  
 FROM MARKETABLE SECURITIES WHICH BROUGHT  
 FINAL NET TO \$173 128 OR \$3.01 A SHR. SALES  
 \$10.4 MILLION VS \$9.4 MILLION.

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**ROYAL OAK DAIRY, LIMITED**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 1972**  
(with comparative figures for 1971)

	1972	1971
SALES .....	\$ 10,401,596	\$9,439,179
COST OF SALES, including selling general and administrative expenses.....	9,964,684	9,022,477
PROVISION FOR DEPRECIATION .....		
INTEREST ON LONG-TERM DEBT .....		
NET EARNINGS before income taxes .....		
INCOME TAXES .....		
NET EARNINGS FROM OPERATIONS .....		
INCOME FROM MARKETABLE SECURITIES.....		
NET EARNINGS FOR THE YEAR .....	\$	
NET EARNINGS PER COMMON SHARE (Note 1)		
Actual .....	\$	
Fully diluted .....	\$	

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 1972**  
(with comparative figures for 1971)

BALANCE - beginning of year .....	\$	
Net earnings for the year .....		
Dividends .....		
Loss on sale of marketable securities .....		
Loss on sale of fixed assets .....		
BALANCE - end of year .....	\$ 981,704	\$ 839,265

**ROYAL OAK DAIRY, LIMITED**  
**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 1972**  
**(with comparative figures for 1971)**

	1972	1971
<b>SOURCE</b>		
From operations -		
Net earnings for the year .....	\$ 190,255	\$ 173,128
Depreciation .....	121,555	115,265
Increase in deferred tax credit .....	15,033	9,239
	<hr/> 326,843	<hr/> 297,632
Increase in bank loan .....	30,000	
Proceeds from loans and mortgages .....	67,406	9,746
Proceeds on disposal of fixed assets .....	1,798	7,782
	<hr/> 426,047	<hr/> 315,160
<b>APPLICATION</b>		
Additions to fixed assets .....	233,133	220,773
Mortgage payments .....	7,936	5,851
Dividends .....	47,500	47,500
Loss on sale of marketable securities .....	315	1,239
Advance to affiliated company .....	20,000	10,000
	<hr/> 308,884	<hr/> 285,363
<b>INCREASE IN WORKING CAPITAL FOR THE YEAR</b>	<hr/> 117,163	<hr/> 29,797
<b>WORKING CAPITAL - beginning of year .....</b>	<hr/> 405,808	<hr/> 376,011
<b>WORKING CAPITAL - end of year.....</b>	<hr/> <hr/> \$ 522,971	<hr/> <hr/> \$ 405,808

# ROYAL OAK DAIRY, LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1972

### 1. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The total direct remuneration paid to directors and senior officers of the company amounted to \$113,970 in 1972 and \$109,360 in 1971.

### 2. MORTGAGES PAYABLE

The company is liable for various mortgages with the major portion against retail store locations. Interest rates on these mortgages range from 7% to 10% and the latest maturity date is within the year 1977.

### 3. BANK LOAN

The long-term bank loan comprises amounts of \$130,000 due December 1974 and \$100,000 due December 1975. Marketable securities are pledged with the bank as security for the loan.

### 4. LEASE COMMITMENTS

The minimum annual rentals under leases for retail store locations amount to \$139,000. None of the leases extend for a period of more than ten years from the balance sheet date.

### 5. FIXED ASSETS AND ACCUMULATED DEPRECIATION

The fixed assets of the company were appraised at December 31, 1948 by Dominion Appraisal Company Limited. All subsequent additions have been recorded at cost. Accumulated depreciation was determined by the above appraisal with subsequent provision based on original cost of the assets.

### 6. EARNINGS PER SHARE

The calculation of net earnings per share on a fully diluted basis for 1972 and 1971 assumes the conversion of all the 37,500 class "A" preference shares to common shares.

### 7. GUARANTEES

Royal, Oak Dairy, Limited has acted as co-guarantor for certain contractual obligations of an affiliated company. The total contingent liability under these agreements amounts to \$60,230.

### 8. COMPANIES CONSOLIDATED

These financial statements include the accounts of the parent company, Royal Oak Dairy, Limited and its wholly-owned subsidiaries, Bantam Stores Limited and Riverview Dairy Limited.



**ROYAL OAK DAIRY, LIMITED**  
**DIRECTORS**

R. W. Greenwood	—	—	—	—	Burlington
F. W. Hamilton	—	—	—	—	Ancaster
D. R. Hamilton	—	—	—	—	Burlington
W. G. Lumsden	—	—	—	—	Burlington
D. A. C. Martin, Q.C.	—	—	—	—	Hamilton
J. W. A. Darby	—	—	—	—	Stoney Creek
N. R. McLeod	—	—	—	—	Winona
W. P. Pigott	—	—	—	—	Ancaster

**OFFICERS**

Chairman of the Board of Directors	—	—	—	—	—	F. W. Hamilton
President	—	—	—	—	—	D. R. Hamilton
Managing Director & Secretary	—	—	—	—	—	N. R. McLeod
Vice-President—Operations and Assistant Secretary	—	—	—	—	—	J. W. A. Darby
Treasurer	—	—	—	—	—	R. W. Greenwood

**BANKERS**

Bank of Montreal

**TRANSFER AGENT AND REGISTRAR**

The Royal Trust Company

**PLANT AND OFFICES**

Head Office—225 East Ave. N., Hamilton, Ont.



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**ROYAL OAK DAIRY LIMITED**

**INTERIM REPORT**

JUNE 30, 1972

**TO THE SHAREHOLDERS:**

Unaudited net earnings for the first six months of 1972 are essentially unchanged from 1971. The consolidated sales of the Dairy and its Bantam Store division are up over 11%, despite intense market competition and sizeable swings in both retail and wholesale prices. These and higher operating costs including increased wages put considerable pressure on profits.

We used working capital in the dairy for additional milk cooling so we now bottle about a degree above freezing, an important step towards still higher quality. Capital was also used in the purchase of operating stores and locations for new controlled milk outlets. We plan further purchases of modern equipment and new stores this year.

We believe the overall trends shown in this first half will continue in the second half with sales, material costs and expenses all increasing; earnings at year end are expected to be less than 1971.

August 17, 1972.  
Hamilton, Ontario.

D. R. HAMILTON,  
President.

**CONSOLIDATED STATEMENT OF EARNINGS  
FOR THE SIX MONTHS ENDED JUNE 30, 1972**

(Unaudited)

	1972	1971
Sales .....	\$5,150,408	\$4,619,082
Cost of Sales .....	3,680,348	3,289,132
Gross Profit on Sales .....	1,470,060	1,329,950
Selling, General and Administrative Expenses .....	1,355,585	1,212,833
Net earnings before Taxes on Income .....	114,475	117,117
Provision for Taxes on Income .....	49,146	52,500
<b>NET EARNINGS</b> .....	<b>\$ 65,329</b>	<b>\$ 64,617</b>
<b>NET EARNINGS PER COMMON SHARE (NOTE 2)</b>		
Actual .....	\$ 1.08	\$ 1.07
Fully Diluted .....	.75	.74

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**

**SOURCE OF FUNDS**

Funds from current operations .....	\$ 127,027	\$ 109,127
Proceeds from mortgages .....	37,500	—
Sale of fixed assets .....	2,321	4,467
	<b>\$ 166,848</b>	<b>\$ 113,594</b>

**APPLICATION OF FUNDS**

Reduction in bank loan .....	\$ 20,000	\$ 100,000
Dividend payments .....	36,250	36,250
Purchase of fixed assets .....	136,130	30,983
Mortgage payments .....	3,818	3,431
Loss on sale of securities .....	—	1,239
Increase in loan to affiliate .....	15,000	—
	<b>\$ 211,198</b>	<b>\$ 171,903</b>

DECREASE IN WORKING CAPITAL .....	<b>\$ 44,350</b>	<b>58,309</b>
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**NOTES TO FINANCIAL STATEMENTS**

- The statements for the six months ended June 30, 1972 include the results of Royal Oak Dairy Limited and its wholly-owned subsidiaries Bantam Stores Limited and Riverview Dairy Limited.
- The calculation of net earnings per share is on a fully diluted basis and is for all the 87,500 issued shares.



